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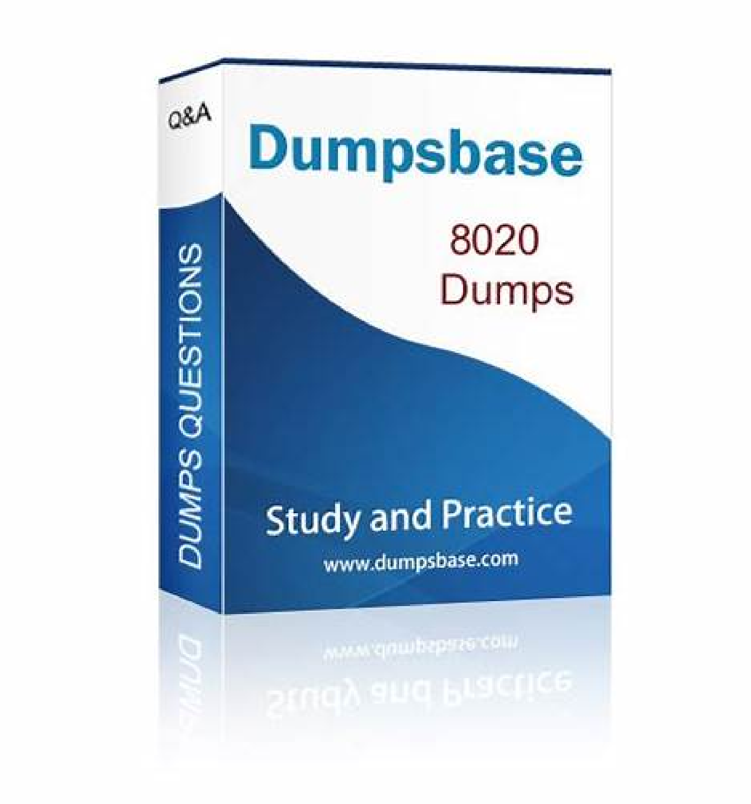

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PRMIA ORM Certificate - 2023 Update Sample Questions (Q29-Q34):

NEW QUESTION # 29
The Internal Loss Multiplier (ILM) is part of the Basel III Standardized Approach. Which of these definitions best descibes it?

- A. It is uniform, and is used for indicating consistent incidents on an average return basis.
- B. t is a scaling factor that is based on a bank's average historical losses.

- C. It is a non-financial factor that is based on a bank's average historical losses.
- D. It is a financial-statement-based proxy for operational risk.

Answer: B

Explanation:
The Internal Loss Multiplier (ILM) is a key component of the Basel III Standardized Approach for Operational Risk. It is designed to adjust capital requirements based on a bank's historical loss experience.
Definition of ILM
ILM is a scaling factor that adjusts the operational risk capital requirement based on a bank's internal loss history.
It is derived using a formula that incorporates historical operational risk losses relative to a bank's revenue.
Why ILM Exists in Basel III
Basel III replaced the Advanced Measurement Approach (AMA) with a Standardized Approach that includes ILM to ensure that banks with high historical losses hold more capital for operational risk.
Why Other Answers Are Incorrect
Option
Explanation:
A . It is a financial-statement-based proxy for operational risk.
Incorrect - ILM is not a general financial statement proxy; it specifically adjusts capital based on past operational losses.
B . It is a non-financial factor that is based on a bank's average historical losses.
Incorrect - ILM is financial in nature because it directly influences capital requirements.
D . It is uniform, and is used for indicating consistent incidents on an average return basis.
Incorrect - ILM is not uniform; it is bank-specific and varies based on loss history.
PRMIA Reference for Verification
PRMIA Operational Risk Standards
Basel III Standardized Approach for Operational Risk

NEW QUESTION # 30
Which of the following is not the purpose or benefit of a Risk Appetite statement?

- A. Risk management standards and resources are likely to be improved.
- B. The governing body articulates its expectations.
- C. Establishes the maximum risk that the organization can stand.
- D. Assists with Strategic discussions.

Answer: C

Explanation:
Step 1: Understanding a Risk Appetite Statement
Risk Appetite is the amount of risk an organization is willing to take to achieve its objectives.
A Risk Appetite Statement (RAS) communicates risk tolerance levels and management expectations.
Step 2: Why Option C is Incorrect
Risk Capacity (not Risk Appetite) defines the maximum risk the firm can withstand.
Risk Appetite is about willingness to take risk, not the absolute limit.
Step 3: Why the Other Options Are Correct
Option A ("Improves risk management standards") → Correct, as RAS helps define better risk management.
Option B ("Governing body articulates expectations") → Correct, as RAS is approved by the board.
Option D ("Assists strategic discussions") → Correct, as RAS guides decision-making.
PRMIA Risk Reference Used:
PRMIA Risk Appetite Framework - Differentiates between Risk Appetite and Risk Capacity.
Basel III Governance Principles - Encourages organizations to establish clear risk appetite statements.
Final Conclusion:
Risk Appetite does not establish the maximum risk the firm can withstand-that is Risk Capacity, making Option C the correct answer.

NEW QUESTION # 31
Under the previous Basel II approach, which was not an approach for operational risk?

- A. Advanced Measurement Approach (AMA).

- B. The Standardized Approach (TSA).
- C. Alternative Measurement Approach (AMA).
- D. Basic Indicator Approach (BIA).

Answer: C

Explanation:
Overview of Basel II Approaches for Operational Risk
Basel II introduced three main approaches to calculating capital requirements for operational risk:
Basic Indicator Approach (BIA)
The Standardized Approach (TSA)
Advanced Measurement Approach (AMA)
Why Answer D is Correct
Alternative Measurement Approach (AMA) is not a recognized Basel II approach.
The correct term under Basel II was Advanced Measurement Approach (AMA).
Why Other Answers Are Incorrect
Option
Explanation:
A . Basic Indicator Approach (BIA).
Correct - A simple approach where capital is set as a fixed percentage of gross income.
B . The Standardized Approach (TSA).
Correct - Categorizes operational risk into business lines, each with assigned risk factors.
C . Advanced Measurement Approach (AMA).
Correct - Uses internal models to calculate capital requirements based on loss data, scenario analysis, and risk controls.
PRMIA Reference for Verification
Basel II Framework for Operational Risk (2004)
PRMIA Risk Management Guidelines

NEW QUESTION # 32
Confidence Accounting can be defined as:

- A. An approach that encourages companies and audit firms to use regular statements in their Al software.
- B. An approach that encourages companies and audit firms to stop using figures and maths.
- C. An approach that encourages companies and audit firms to use ranges, rather than discrete numbers, for major accounting entries.
- D. An approach that encourages companies and audit firms to have diverse boards.

Answer: C

Explanation:
Definition of Confidence Accounting
Confidence Accounting challenges traditional accounting by introducing probability distributions and ranges rather than fixed numbers for financial reporting.
This approach improves transparency and risk awareness by acknowledging uncertainty in financial figures.
Why Answer B is Correct
Encourages using ranges (confidence intervals) instead of discrete values to better reflect uncertainty.
Used in risk-sensitive industries where financial estimates vary due to external factors (e.g., credit risk, market fluctuations).
Why Other Answers Are Incorrect
Option
Explanation:
A . An approach that encourages companies and audit firms to have diverse boards.
Incorrect - Board diversity is unrelated to Confidence Accounting.
C . An approach that encourages companies and audit firms to use regular statements in their AI software.
Incorrect - AI may use probability models, but Confidence Accounting is an accounting methodology, not an AI approach.
D . An approach that encourages companies and audit firms to stop using figures and maths.
Incorrect - Confidence Accounting still relies on mathematical models; it does not eliminate numerical analysis.
PRMIA Reference for Verification
PRMIA Financial Risk Reporting Standards
IFRS (International Financial Reporting Standards) Guidelines on Probability-Based Accounting

NEW QUESTION # 33
Governance can be defined as which of the following?

- A. Governance is a structure specifying the policies, principles, and procedures for making decisions about corporate direction.
- B. Governance is a structure specifying the daily operation of a firm.
- C. Governance is being replaced by management in all firms that are regulated.
- D. Governance is a structure specifying the ways in which reporting is made to the primary regulator.

Answer: A

Explanation:
Definition of Governance
Governance refers to the framework of policies, principles, and processes used to guide corporate decision-making and strategic direction.
It ensures accountability, transparency, and risk oversight within an organization.
Key Elements of Governance
Risk oversight - Ensuring risks are properly identified and managed.
Accountability structures - Defining roles and responsibilities.
Decision-making frameworks - Establishing policies for long-term corporate success.
Why Other Answers Are Incorrect
Option
Explanation:
A . Governance is a structure specifying the daily operation of a firm.
Incorrect - Governance focuses on high-level corporate oversight, not day-to-day operations.
B . Governance is a structure specifying the ways in which reporting is made to the primary regulator.
Incorrect - Governance is broader than just regulatory reporting.
C . Governance is being replaced by management in all firms that are regulated.
Incorrect - Governance and management are separate but complementary; governance provides oversight, while management executes strategy.
PRMIA Reference for Verification
PRMIA 10 Principles of Good Governance

NEW QUESTION # 34
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